News : Lower pressure seen on US gas prices this summer despite higher demand: NGSA

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Published on - Thu, 25 May 2023 13:56:34 EST | Modified on - Thu, 25 May 2023 16:17:38 EST

- Associated gas production seen 3 Bcf/d higher
- LNG exports, power burn increasing demand

Despite a 3% rise in US natural gas demand from last summer, higher production, milder weather, and above-average storage levels are likely to put downward pressure on wholesale gas prices this summer, according to the Natural Gas Supply Association's 2023 Summer Outlook.

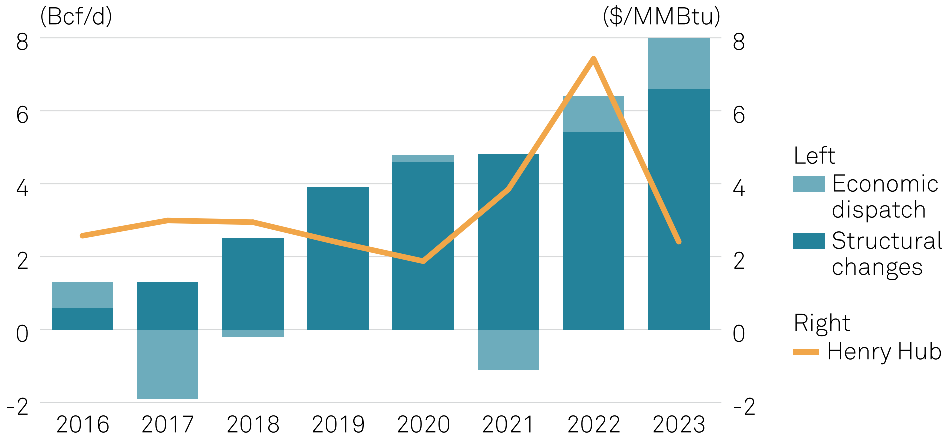
Prices at Henry Hub averaged $7.10/MMBtu during the summer, defined as April through October, of 2022, at times trading as high as $10/MMBtu, NGSA said.

This coming summer, the NGSA outlook expects US gas demand will average a record 97 Bcf/d, driven mostly by LNG exports and power burn. The forecast is based on data from Energy Ventures Analysis, Moody's Analytics, the Conference Board, and publicly available sources, including the US Energy Information Administration.

According to the outlook, the export sector leads demand growth, with LNG feedgas demand expected to average 14.1 Bcf/d, up 2.6 Bcf/d from the prior summer, while pipeline exports to Mexico are projected to be 300 MMcf/d higher as well.

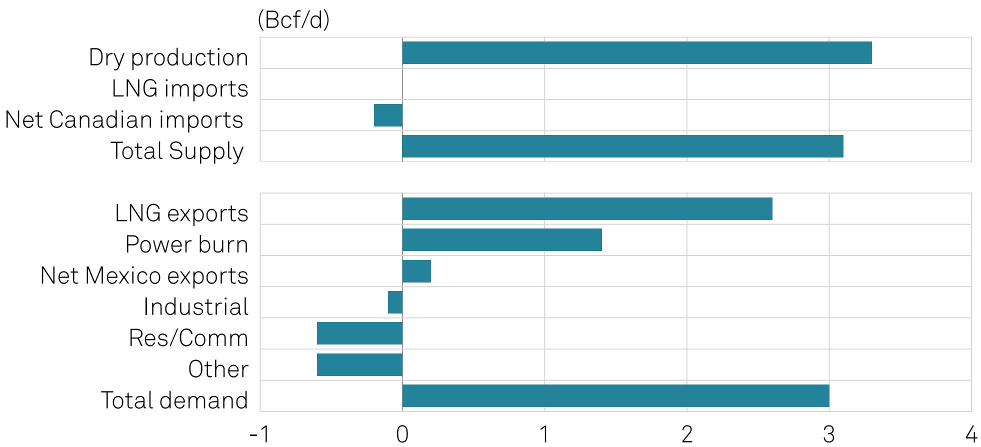
Power burn also is estimated to be 1.4 Bcf/d higher in summer 2023, amid cost advantages to coal-fired generation, according to the report.

Power burn increase: structural growth vs economic switching



Compared to baseline of summer 2015
Source: Energy Ventures Analysis

Natural gas supply and demand, 2023 summer vs 2022 summer



Source: Energy Ventures Analysis

Last summer, a combination of factors fueled the run-up in benchmark Henry Hub gas prices. During the summer months, low US inventory levels left many traders jittery over the possibility that domestic prices could surge during the winter. Surprisingly strong power burn and record LNG exports fueled a 4.4 Bcf/d rise in total US gas demand, which narrowly outpaced the growth in domestic supply as most US operators kept production at maintenance levels, according to S&P Global Commodity Insights data. With Russia's war in Ukraine also leaving Europe short on gas, a rally in global gas prices also added to a bull-market psychology in the US.

Production gains

But NGSA anticipates pressure on prices this summer compared with last summer, arising from a dry gas production forecast of 101.3 Bcf/d, up about 3.2 Bcf/d from summer 2022; a cooler economy, with GDP growth forecast at 1.6% compared with 3.7% last summer; and cooler weather, with 7% fewer cooling degree-days expected this summer.

The rise in production mostly reflects an increase in associated gas output and Haynesville production to support the rise in Gulf Coast feedgas demand, the outlook said.

Despite a slowing rig count, NGSA said drilling efficiencies boosted production and drilled-but-uncompleted wells are allowing production to get to market faster.

"The outlook shows producers are rising to the challenge of meeting strong summer demand for natural gas at home while also providing for the critical needs of an under-supplied global market," said Freeman Shaheen, NGSA chairman and Chevron president of global gas, in a statement that accompanies the report.

In addition, higher storage levels are likely to ease prices, with expectations of 1.83 Tcf of gas in storage heading into the summer, well above 1.38 Tcf at the start of last summer, according to the outlook.

US feedgas demand is also sensitive to European gas storage levels, the outlook emphasized. "Should conservation efforts and moderate demand support an accelerated injection schedule, the call on US LNG could be at risk prior to the start of the traditional heating season," an executive summary of the report said.